



SEPT 30/65

PACIFIC PETROLEUMS LTD.

Annual Report 1964



ON THE COVER

In 1964, the Pacific 66 marketing system was extended into the City of Vancouver for the first time. The cover painting, by William Brownridge, shows one of the attractive new Pacific service stations in the setting of Vancouver's spectacular seashore and mountain scenery.

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SHAREHOLDERS' MEETING

The Annual Meeting of the Shareholders of Pacific Petroleums Ltd. will be held at the offices of the Company, 8th Floor, Pacific Building, 320 9th Avenue S.W., Calgary, Alberta, Canada, on April 20, 1965, at 10:00 o'clock in the forenoon. A formal notice of the meeting, together with a proxy statement and a form of proxy for those who are unable to attend, are being mailed to each Shareholder.

26th Annual Report 1964

BOARD OF DIRECTORS

A. PATRICK BOWSHER
Vice-President and Treasurer
Pacific Petroleum Ltd.

JAMES E. CHISHOLM
Vice-President and Assistant to the President
Pacific Petroleum Ltd.

JOHN GETGOOD
Vice-President Sales and Director
Phillips Petroleum Company
Bartlesville, Oklahoma

KELLY H. GIBSON
President
Pacific Petroleum Ltd.

HUDSON O. HARDER
Executive Vice-President and Director
Sunray DX Oil Company
Tulsa, Oklahoma

JOHN M. HOUCHIN
Executive Vice-President and Director
Phillips Petroleum Company
Bartlesville, Oklahoma

EDWARD S. MAGOWAN
Vice-President
Kormendi and Co., Inc.
New York, N.Y.

EDWIN C. McDONALD
Director
Metropolitan Life Insurance Company
New York, N.Y.

FRANK M. McMAHON
Chairman of the Board
Westcoast Transmission Company Limited
Vancouver, B.C.

GEORGE L. McMAHON
Vice-President and Director
Westcoast Transmission Company Limited
Calgary, Alberta

COLIN WEBSTER
President
Canadian Import Limited
Montreal, Quebec

NORMAN R. WHITTALL
President
Norman R. Whittall Limited
Vancouver, B.C.

OFFICERS

KELLY H. GIBSON
JAMES E. CHISHOLM
A. PATRICK BOWSHER
REX A. HARFIELD
L. MERRILL RASMUSSEN
JOHN ANDERSON

President and Chief Executive Officer
Vice-President and Assistant to the President
Vice-President and Treasurer
Vice-President Sales
Vice-President Exploration and Production
Secretary and Chief Legal Advisor

OTHER EXECUTIVES

F. K. KENNEDY
Manager Manufacturing
A. M. McINTOSH
Manager Production

J. C. SCOTT
Manager Exploration
W. H. TYE
Manager Accounting and Services

EXECUTIVE CHANGES

Mr. JOHN GETGOOD resigned as President in April, 1964 to accept appointment as Vice-President Sales for Phillips Petroleum Company. He continues as a Director of Pacific.

Mr. KELLY H. GIBSON, who was Executive Vice-President and a Director since 1959, was appointed President and Chief Executive Officer of the Company in April, 1964.

Mr. JAMES E. CHISHOLM, formerly Assistant Sales Manager of Phillips Petroleum Company, was appointed Vice-President and Assistant to the President of Pacific in April, 1964. In July, 1964, he was appointed a Director.

Mr. STANLEY LEARNED, a Director of the Company since 1960, resigned from the Board in July, 1964.

Mr. L. MERRILL RASMUSSEN, formerly Manager of Exploration, was appointed Vice-President Production and Exploration in April, 1964.

Mr. REX A. HARFIELD joined the Company in April, 1964 as Vice-President Sales.



Report to the Shareholders

THE YEAR AT A GLANCE

	Year Ending December 31	
	1964	1963
Total Revenues	\$ 42,732,605	\$ 33,737,911
Cash Income	\$ 17,710,166	\$ 16,775,679
Net Profit	\$ 4,420,388	\$ 3,684,419
Per Share	\$.21	\$.18
Shareholders' Equity:		
Total	\$222,928,184	\$218,135,279
Per Share	\$ 10.70	\$ 10.49
Production:		
Oil, Liquids (bbls/d) . .	21,675	20,636
Gas (Mcf/d)	175,000	159,000
Refined Products Sales .	\$ 14,722,484	\$ 8,570,135
No. of Shareholders . .	39,200	33,709
Shares Outstanding . . .	20,831,323	20,801,623

Pacific Petroleum Ltd. continued a trend of sustained growth in 1964. The Company's revenues increased by more than \$8,000,000, its net profit rose 20% over the previous year, and new records were set in all phases of production and sales.

Company revenues last year totalled \$42,732,605, a 27% increase over 1963. Cash generated from operations also reached a new high of \$17,710,166. The consolidated net profit in 1964 was \$4,420,388, compared to \$3,684,419 in the previous year.

The improved financial results achieved last year and in the period since the Company attained a profit position in 1961 have enabled Pacific and subsidiaries to eliminate the substantial deficit of prior years and to show a consolidated earned surplus for the first time in the recent history of the Company. This surplus amounted to \$3,889,289 at the year end. It is significant because it is the beginning of an accumulation of earnings out of which dividends can ultimately be distributed to Pacific's shareholders.

During 1964, Pacific made further progress in its efforts to expand and diversify the Company's interests in the Canadian petroleum industry. Operations are reviewed in fuller detail elsewhere in this Report but the following paragraphs summarize various developments of the past year which served to strengthen the Company and increase its future profit opportunities:

* * *

Pacific's natural gas processing plant at Empress, Alberta, went on stream on March 31 and in the remaining nine months of 1964 manufactured more than 2,000,000 barrels of propane, butanes and natural gasoline. To serve the plant, the Company completed a 579-mile LP-Gas pipeline from Alberta to Winnipeg and assembled the largest private fleet of jumbo tank cars in Canada, with total capacity of 2,700,000 gallons. The year end saw Pacific established as Canada's leading producer of natural gas liquids with facilities to provide large, dependable LP-Gas supplies to any market in the country.

* * *

Pacific acquired interests in five Quebec companies which distribute propane in the Montreal area. Participation in these firms, which have more than 20,000 customers, enabled Pacific to become established in the LP-Gas market in the Province of Quebec.

* * *

The expanding Pacific 66 service station system was extended for the first time into Canada's third largest metropolitan area in and around Vancouver, B.C., and into leading cities in the Province of Sask-

atchewan. Despite the intense competition in these major market areas, customer response at the new Pacific 66 outlets was so favorable that the Company is accelerating and enlarging its service station program.

* * *

Early last summer, Westcoast Transmission Company Limited began construction of a pipeline extension to the Fort Nelson area of northeastern British Columbia. This line, which was completed early in 1965, provides a long-awaited outlet for Pacific's large gas reserves in the Fort Nelson vicinity.

* * *

On January 1, 1964, the Company became Canadian agent for Marlex, a brand of polyolefin resins patented by Phillips Petroleum Company. Later in the year, Pacific acquired interests in two Canadian plastics firms, Leco Industries Ltd. of Montreal and Midland Industries Limited in Midland, Ontario. The objective of these new moves into the plastics industry is to develop Canadian markets for Marlex and similar petrochemical products which can ultimately be manufactured by Pacific from its own natural gas liquids.

* * *

An agreement was negotiated with Bralorne Pioneer Mines Ltd. and Mountain Copper Company under which Pacific will participate with these experienced mining firms in a mineral exploration program in Western Canada. Bralorne Pioneer, a leading gold producer in British Columbia, will conduct this program which marks Pacific's entry into mineral exploration.

* * *

While these varied new projects were being undertaken, Pacific maintained the steady growth in its production of crude oil and natural gas which have been the principal sources of revenue since the Company's inception. A record \$17,500,000 program of exploration and development also was carried out on Pacific properties. Since the program is detailed on the pages immediately following, reference is made here only to the most significant results. One of these was Pacific's discovery of the Nancy oilfield in northeastern British Columbia. This was particularly important not only for its substantial addition to the Company's net oil production but also because it intensified interest and confidence in the oil potential of this area where Pacific is a major landholder. In natural gas operations, an impressive aspect was the Company's continued successful exploration in the Fort Nelson area. With further good drilling results there last year, Pacific's proved reserves in the immediate Fort Nelson district total more than one trillion cubic feet representing approximately 50% of the total established to date in this prolific area.

The rate of future gas development and production in the Fort Nelson area depends to a large extent on a forthcoming decision by Canada's National Energy Board. The Board is being asked to permit additional exports of 200 million cu. ft. per day from the fields

of Southern Alberta to California. This is a logical market for Fort Nelson gas and if this new demand is allocated to Alberta producers the full development of the northern British Columbia fields will be delayed.

As a company which has invested heavily to discover and develop the Fort Nelson reserves, Pacific holds the view that the gas requested by the California interests in the pending application should be supplied from this area of British Columbia. At present, British Columbia's authorized net gas exports are only 183 million cu. ft. per day while those from Alberta are more than 12 times as large, exceeding 2,200 million cu. ft. per day. This imbalance should be corrected. In considering the current export application, the National Energy Board has the responsibility to ensure that the productive areas of British Columbia are afforded a fair share of the available markets and a more reasonable opportunity for orderly development.

In general, the outlook for the Company in the near future is optimistic. Because of the new pipeline extension to Fort Nelson, Pacific will make a sizeable gain in gas production this year. The Company's crude production will increase as additional wells are completed in the new Nancy oilfield and on other properties.

There is especially wide scope for further growth in sales of LP-Gas and plastics as well as in Pacific 66 refined products. By U.S. standards, the Canadian market for LP-Gas and plastics components is vastly underdeveloped. The growth potential of the Pacific 66 marketing system lies in the fact that it has to date been extended into only three of the ten provinces and that those which remain open for expansion are the most populous areas of Canada.

The good results of Company operations last year were only achieved through exceptional efforts by many Pacific employees. Deserving of particular mention are the personnel of the Company's refinery at Taylor, B.C. who completed three years without a lost-time accident and won awards from many safety organizations.

The Directors express their appreciation to Pacific's employees, customers and shareholders for their support and cooperation in the past year.

For the Board of Directors,



President.



Exploration and Production

The Company carried out an active program of exploratory and development drilling in 1964. Expenditures of \$17,500,000 were committed to this phase of operations, an increase of \$2,000,000 over the previous year. Besides geophysical work and drilling costs, these expenditures included outlays for land acquisitions, secondary recovery installations and production facilities.

Pacific drilled or participated in the drilling of 160 wells during the year. Of these, 92 were oil producers, 26 were gas wells and 42 were dry holes. This is a success ratio of 74% and it compares with the ratio of 78% attained by the Company in the previous year and with the 60% ratio achieved by the Canadian industry as a whole in 1964. Some of the more significant drilling results obtained by the Company in 1964 are discussed below:

Oil

The most important oil discovery by Pacific during the year was made in the Nancy area of northeastern British Columbia, north of Fort St. John. The discovery well was completed in February on acreage in which Pacific holds a 55.5% interest.

Exploratory and development drilling continued through 1964 and at the year end, 21 successful wells had been completed in the Nancy area. Nine of these wells are on land in which the Company's interests are from 50% to 55% and Pacific's share of the production is 650 bbls./day. Following the Nancy discovery, Pacific acquired additional acreage in this field. On the proved holdings, nine more wells will be drilled and these will increase the Company's production to more than 1,000 bbls./day.

The Company's oil production also was increased last year by the continued development of the Deer Mountain field in north-central Alberta. This was formerly known as the Shannon field and reference was made to its discovery in last year's Annual Report. In 1965, 25 additional wells were completed there on acreage in which we hold a 33⅓% interest. Net Company production from this property presently totals 485 bbls./day. Ten more wells will be drilled at infill locations in the field in 1965.

The completion last year of a new pipeline to the Wainwright district of eastern Alberta opened a larger and more economic market for that area's reserves of heavy crude. This enabled Pacific to undertake a development program on its acreage in the Wainwright field. At the year end, six wells had been completed and were producing upwards of 135 bbls./day of 20° gravity oil. Additional development in 1965 is expected to raise Pacific's net production to more than 400 bbls./day.



*Sites of major Company activity
in Alberta*

In the continuing development of the Boundary Lake field, four additional wells were completed last year on acreage in which Pacific's interests vary from 20% to 45%. This increased our Boundary Lake holdings to the equivalent of 33 net oil wells which produce in excess of 1,550 bbls./day.

Secondary recovery facilities were placed in operation in 1964 in the Boundary Lake and Peejay fields in British Columbia as well as in the Lobstick field in Alberta. At the year end, these reservoirs were responding well to pressure maintenance and this is calculated to increase Pacific's recoverable oil reserves in these fields by 20,000,000 barrels.

Natural Gas

An extensive program which included road-building, installation of a field gathering system and additional development drilling was carried out in the Fort Nelson district in order to prepare for the start of gas deliveries to the newly-constructed Westcoast Transmission pipeline extension into that area. This work was concentrated in the Clarke Lake field, where Pacific has interests varying from 40% to 50%. The gathering system was installed to seven wells which had been completed and drilling was commenced at three additional locations in this field.

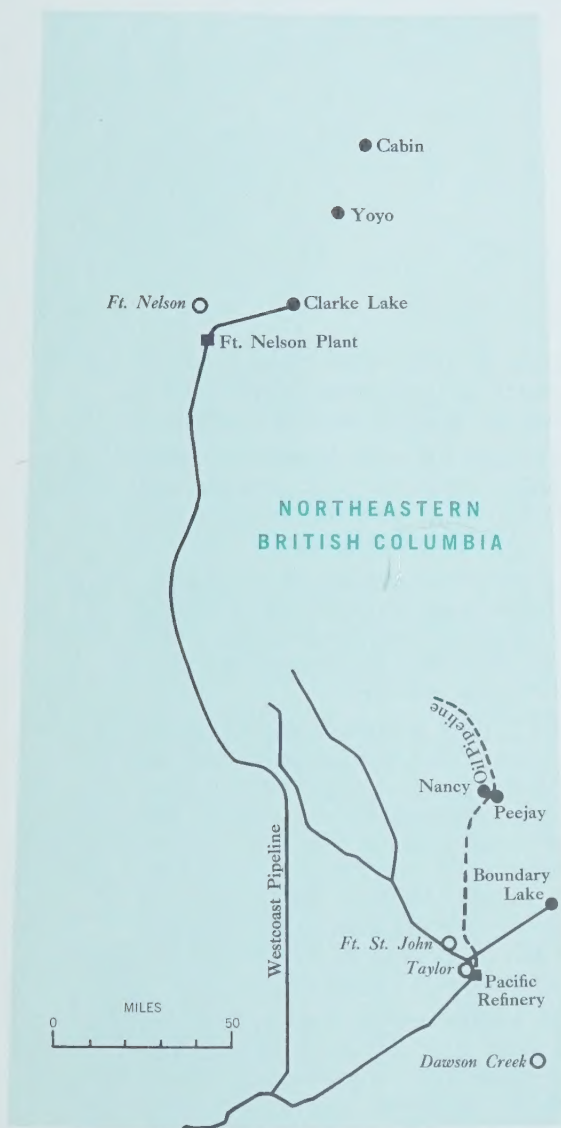
Although these Clarke Lake properties are capable of supplying all our present contract commitments in the Fort Nelson area, the Company is continuing exploration and development of other Fort Nelson acreage to discover and develop additional reserves. Two successful stepout wells were completed in this area last year. One of these, in the Yoyo area northeast of Fort Nelson, penetrated a pay zone of 112 feet. The other well was farther north in the Cabin area and was completed with an open flow of 35 million cubic feet per day. Pacific's interest in both wells is 100%.

In its gas exploration program last year, Pacific devoted increased attention to its acreage in western Alberta where substantial discoveries have recently been made by deeper drilling. In the Coalspur-Edson area, Pacific and associates completed a successful 10,000 ft. well with an open flow of 4,000,000 cubic feet per day. This was a stepout from other successful wells in this area and while the well was not itself a highly productive one, it indicated extension of productive formation and the presence of large reserves on a block of 184,000 acres in which Pacific holds a 45% interest. Additional locations are being drilled on this acreage. A pipeline is now under construction to the Edson area and deliveries to Trans-Canada Pipe Lines will begin in 1965.

In the Worsley area of northwestern Alberta, Pacific completed a development well with a pay zone of 61 feet and an absolute open flow potential of 365,000,000 cubic feet per day. A sales contract is being negotiated and it is expected that this major well will be connected to the Westcoast pipeline system this year.

Land

During the year, Pacific's land holdings were increased by 443,000 net acres. A total of \$1,859,348 was spent on new land acquisitions. The additions included acreage in various parts of British Columbia and Alberta as well as a block of 100,000 acres in the



*Sites of major Company activity
in British Columbia*

Swift Current region of west-central Saskatchewan. The Company plans to increase exploration in Saskatchewan in 1965.

Last year, 24 wells were drilled by other companies on Pacific acreage under farmout agreements. One successful gas well was completed in this program and 146,000 gross acres were evaluated at no monetary cost to the Company. As a result of this and other grading of unproved acreage, 213,844 net acres were adjudged to be non-prospective and title to this land was surrendered.



Manufacturing

Pacific's manufacturing operations in 1964 were highlighted by the start-up of the Empress natural gas processing plant and by completion of an expansion program at the Company's refinery.

The Empress plant was on stream for nine months of 1964 during which it processed 170 billion cubic feet of natural gas and produced more than 2,000,000 barrels of propane, butanes and natural gasoline.

In conjunction with the Empress plant opening, the Company began operating its 579-mile pipeline from the plant site to Winnipeg. At December 31, nearly 1,000,000 barrels of propane and butanes had been delivered via the pipeline. The average throughput in December reached 9,000 barrels per day.

Because of the volume of our L.P.G. deliveries and the rapid growth of the market for them, it became necessary to expand the tank-car loading facilities at the Winnipeg terminus of the pipeline. These added facilities were completed for the start of the peak winter heating season and enabled us to ship L.P.G. from Winnipeg to customers in Eastern Canada and the U.S. at the rate of 300 jumbo tank-carloads per month. Pacific's jumbo tank car fleet also was enlarged late in 1964. It now contains 76 of these large tank cars, each of which has a capacity of 30,000 gallons, and is the biggest private fleet of its kind in Canada.

The program to expand Pacific's oil refinery at Taylor, B.C. was completed on schedule late last year. The new facilities increased the productive capacity of the plant from approximately 8,000 to 11,000 barrels per day. With this additional capacity, the 1964 production totalled 2,309,000 bbls., a 30% increase over 1963.

In addition to the plants which the Company operates, Pacific participates in the ownership and production of 15 other natural gas processing plants in various fields throughout Alberta and British Columbia. The Company's share of the production of these plants last year consisted of 1,089,658 bbls. of natural gas liquids and 38,697 long tons of sulphur.



Pacific's sales of refined products and L.P.G.'s in 1964 totalled 171,000,000 gallons, an 88% increase over the previous year. Last year's sales revenues in this phase of operations were \$15,600,000, an 82% gain over 1963. This extraordinary growth was mainly due to sales of product from the Empress natural gas liquids plant which opened on March 31 and to the increased sales of Pacific 66 gasoline in the expanding retail marketing system.

L.P.G. Sales

With the start-up of the Empress plant, an intensive program was launched by the Company to win a major share of existing markets and to develop new ones for natural gas liquids. One of the initial steps was to set up an effective supply and sales organization in the provinces of Saskatchewan and Manitoba to promote the wider use of propane in rural areas and smaller communities that can now be served from the terminals along the L.P.G. pipeline from Alberta to Winnipeg.

Beyond the immediate pipeline delivery area, it was decided to concentrate heavily on market development in the Province of Quebec. In this densely populated area the per capita distribution of natural gas is the lowest and the potential market for propane is the largest of all the principal Canadian provinces. In order to gain immediate entry into the Quebec market, Pacific acquired interests in five L.P.G. distribution companies serving 20,000 customers in suburban Montreal and along the south shore of the St. Lawrence River. A sales office was opened in Montreal to serve the Province and other potential markets in Eastern Canada.

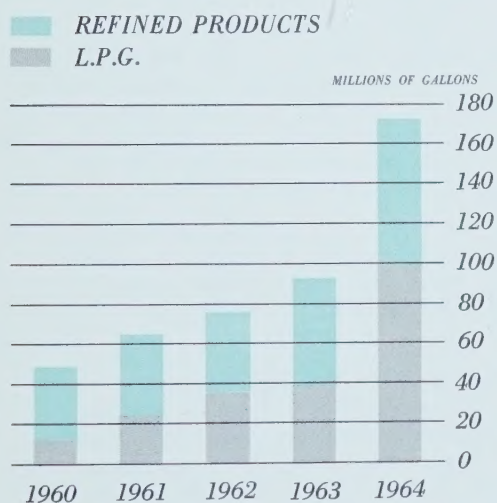
A sales organization was set up in Ontario to seek major industrial L.P.G. customers in that area. A thorough canvass also was begun of refineries and petrochemical plants in other parts of Canada to negotiate large-volume contracts for such Empress products as iso-butane, normal butane and natural gasoline.

These various sales efforts were highly successful. Distributors in the farm areas along the pipeline reported increased sales and a marked trend toward increased use of propane for space heating, mechanization and other farming applications.

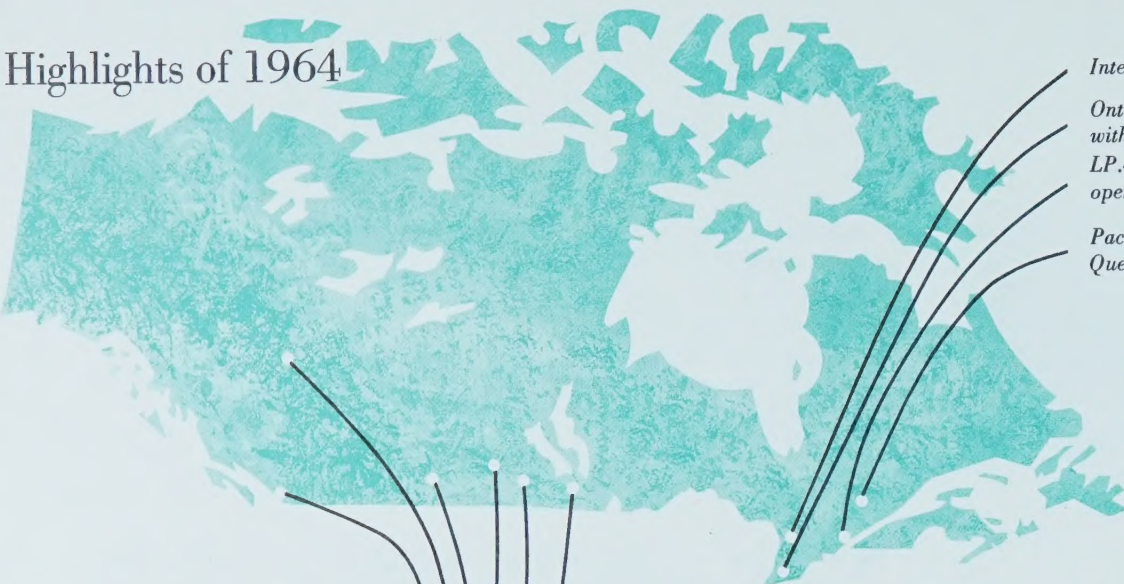
Through its interests in the local distribution companies, Pacific immediately gained a large share of the Quebec market for propane. In Ontario and other parts of Canada sales contracts for substantial amounts of propane and other Empress products were negotiated with many leading industrial firms.

As a result of these developments, Pacific disposed of virtually all the first-year production of the Empress plant. Buyers were attracted by the quality of the Empress products, which meet the

5 YEAR SALES GROWTH



Highlights of 1964



Interest acquired in Midland Industries Ltd.

Ontario industrial firms supplied with Pacific LP-Gas

LP-Gas and plastics sales offices opened in Montreal

Pacific gains major share of Quebec propane market

New retail marketing area successfully opened

Pacific's oil refinery expanded

Empress Plant and pipeline go on stream

First Pacific 66 stations established in Saskatchewan

LP-Gas sales rise in Western farm areas

Winnipeg pipeline terminus enlarged

highest specifications, and by the availability of abundant and dependable long-term supplies. With the plant on stream for a full 12 months, the Empress production will be considerably larger in the current year. Because of the good customer acceptance of its products, however, and the sales arrangements now established, indications are that all 1965 production will be sold.

Retail Marketing

The expansion of the Pacific 66 marketing system was accelerated last year, with 68 new service stations being opened to bring our total outlets to 152. At the year-end, 16 more stations were under construction and 49 additional sites had been selected in British Columbia, Alberta and Saskatchewan for new stations in 1965.

Most of the new stations opened last year were situated in the lower mainland area of British Columbia, in or near the City of Vancouver. Although this was Pacific's first entry into the retail market in Canada's third largest city, the Company succeeded in acquiring a number of excellent station sites and is rapidly becoming established in the Vancouver area market. The motorists' response to Pacific 66 products was equally good in the Province of Saskatchewan, another area entered for the first time in 1964.

In the expansion of the retail marketing system, sales of Pacific 66 gasoline have nearly doubled in the past three years. Last year's sales of branded gasoline were 34% higher than in 1963. This compared with a gain of 6% by the industry at large.

Plastics

On January 1, 1964, Pacific became the Canadian distributor of Marlex, a family of polyolefin resins for which certain Canadian patents are held by Phillips Petroleum Company. An office was opened in Montreal to handle direct sales of Marlex products to Canadian plastics manufacturers. As a further step to develop the market for Marlex in this country, Pacific acquired interests in two plastics manufacturing companies, Leco Industries Ltd. and Midland Industries Limited. The Leco company manufactures polyethylene film at plants in Montreal and Ste. Therese, Quebec. Midland operates one of Canada's largest plastic injection and compression molding plants at Midland, Ontario.

Through Pacific's participation in these companies, it is expected that their production will be increased and diversified so that they will employ greater volumes and varieties of Marlex products.



Financial Review

Consolidated net profit in 1964 increased by 20% to \$4,420,388, equivalent to 21 cents per share on the Company's 20,831,323 outstanding shares.

Total income for the year reached a record amount of \$42,732,605, an increase of 26% over the previous year, and cash generated from operations rose to a new high of \$17,710,166, up by nearly \$1,000,000 over 1963. A noteworthy aspect of the Company's revenue in 1964 was the increased sales of manufactured products which comprised 37% of Pacific's income.

Producing, refining and selling expenses were higher at \$17,840,814, the increase applying principally to the Empress project, which commenced operations during the year, and to the continued expansion and start-up of retail marketing outlets. Interest charges also increased substantially because of long-term borrowings to finance the Empress Plant and pipe line.

The change in the content of the Company's revenue dollar, as shown in the accompanying charts, indicates the increasing diversity of its operations. This diversification has reduced the ratio of cash generated by operations to gross revenue. However, the new operations contribute an increasing amount to net income.

The increased volume of sales is reflected in the Company's Accounts Receivable position, which increased to \$14,842,329 from \$10,530,051 a year ago. The greater part of this increase represents new sales accounts of L.P.G. and other refined products.

Analysis of the source and application statement on the next page indicates a fund inflow for 1964 of \$42,225,768. This was derived from the following sources: cash generated from operations; long term borrowings; sales of fixed assets and shares.

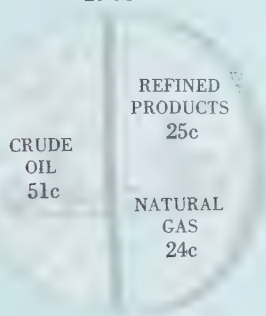
A total of \$41,901,133 was spent during the year leaving a net inflow of \$324,635 which improved working capital to \$3,714,408 which has remained relatively unchanged over the last few years. Included in expenditures were \$25,331,005 for the acquisition, exploration and development of oil and gas properties and plants; \$6,839,078 for the purchase of interests in subsidiary companies; \$8,942,672 for long term debt retirement; and \$788,378 for the payment of dividends on the outstanding preferred shares of Bailey Selburn Oil & Gas Ltd. The total funds outflow was appreciably less than in 1963 when there was a heavy investment in the Empress Plant and pipeline project.

Accounting Change

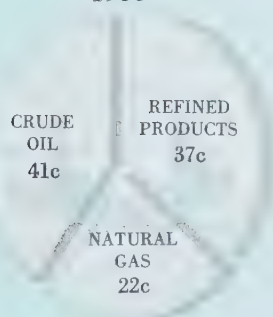
Commencing January 1, 1964, the Company adopted the policy of capitalizing all expenditures relating to the exploration for and development of oil and gas reserves, including all property acquisition costs and rental charges. The total costs thus capitalized are depleted on a composite pool basis on a unit-of-production method over the estimated producing life of all the oil and gas properties.

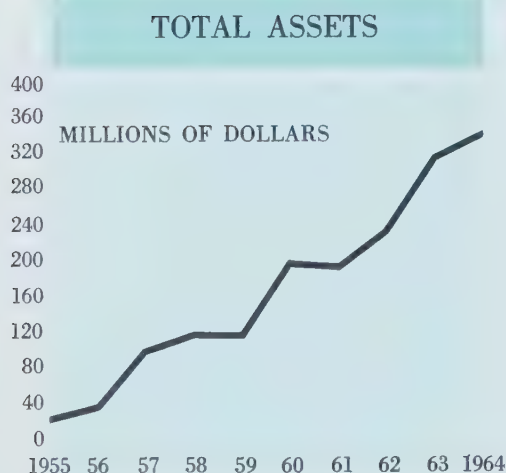
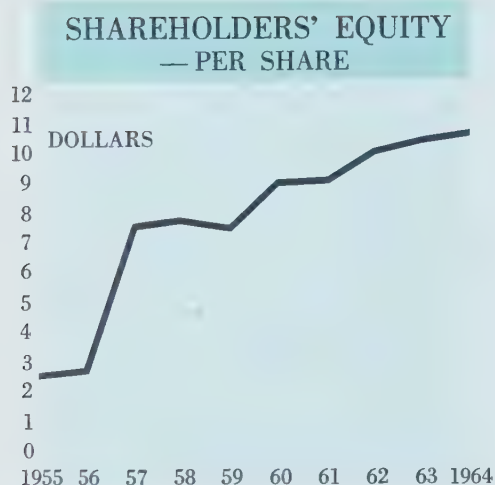
PACIFIC'S REVENUE DOLLAR

1963



1964





The former practice was to capitalize the above costs only in respect of successful wells. The costs of unsuccessful ventures were charged to operations in the period when the property involved was abandoned.

Under the new procedure, the Company's operating accounts will not be distorted by annual fluctuations in drilling results, but will reflect an orderly and systematic amortization of the cost of the Company's oil and gas properties over their productive life.

Investments

Pacific owns 1,722,712 shares of Westcoast Transmission Company Limited, 26.7% of the issued capital stock of that company. While no dividends have been paid by Westcoast, the company's earnings have increased steadily, amounting to 50¢ per share in the fiscal year ending March 31, 1964 and to 38¢ per share in the first nine months of the current fiscal year. In December, 1964, throughput of Westcoast's natural gas pipeline averaged a record high of 482 million cubic feet per day. The quoted market value of these holdings is approximately \$26,251,983.

Other investments having a book value of \$2,047,499 consist principally of interests in other oil companies, pipeline transmission and gas processing companies, and a 25% interest in Leco Industries Ltd., a plastics manufacturing company operating in the Province of Quebec.

Income Tax

As explained in Note 9 to the financial statements, taxable income for the year was offset by application of a portion of the substantial accumulation of acquisition, drilling and exploration expenditures carried forward from prior years. The Company and its two principal subsidiaries, Bailey Selburn Oil & Gas Ltd. and Western Natural Gas Company Inc. have, among them, a balance of more than \$100 million of drilling and exploration expenditures available to offset future taxable incomes.

Source and Application of Funds

	Year Ended Dec. 31	
	1964	1963
FUNDS PROVIDED BY:		
Cash generated from operations	\$17,710,166	\$16,775,679
Long term borrowings	22,596,297	28,405,014
Sales of assets and miscellaneous receipts	1,546,788	4,590,064
Sale of shares	372,517	35,957,723
Total Funds Available	\$42,225,768	\$85,728,480
FUNDS APPLIED TO:		
Additions to property, plant and equipment including exploration and development	\$25,331,005	\$60,304,960
Acquisition of subsidiary companies	6,839,078	17,533,302
Repayment of long term debt	8,942,672	7,035,490
Dividends on preferred shares of subsidiary	788,378	788,378
	\$41,901,133	\$85,662,130
Net increase in working capital	\$ 324,635	\$ 66,350
Working capital January 1	3,389,773	3,323,423
Working capital December 31	\$ 3,714,408	\$ 3,389,773

PACIFIC PETROLEUMS LTD.

STATEMENT OF CONSOLIDATED OPERATIONS

Years ended December 31, 1964 and 1963
(Canadian Dollars)

	1964	1963
		(Note 2)
Sales of crude oil, gas and refined products	\$42,438,166	\$33,507,360
Interest and other investment income	294,439	230,551
	42,732,605	33,737,911
Deduct:		
Producing, refining and selling expenses	17,840,814	11,562,239
General and administrative expenses	2,153,739	1,865,929
Interest and expense on indebtedness	5,027,886	3,534,064
	25,022,439	16,962,232
Income before depletion, depreciation and other write-offs	17,710,166	16,775,679
Deduct:		
Provision for depletion	9,228,940	7,371,561
Provision for depreciation	3,144,694	2,524,713
Non-productive drilling and geological expenses (Note 2)	—	1,799,030
Leaseholds and reservations surrendered (Note 2)	—	712,644
Loss (profit) on fixed assets and investments	119,481	(133,594)
	12,493,115	12,274,354
Profit before minority interest	5,217,051	4,501,325
Minority interest — principally dividends on preferred shares of subsidiary	796,663	816,906
Net profit transferred to earned surplus (Note 9)	\$ 4,420,388	\$ 3,684,419

(See accompanying notes)

A TEN YEAR FINANCIAL A

(All amounts are in Canadian dollars and

FINANCIAL

	Years Ended December 31		
	1964	1963	1962
Cash Generated from Operations	\$ 17,710	\$ 16,775	\$ 14,710
Depletion, Depreciation and similar charges	12,493	12,274	11,810
Net Operating Profit	\$ 5,217	\$ 4,501	\$ 3,000
Minority Interest	797	817	-
Net Profit (Loss)	\$ 4,420	\$ 3,684	\$ 3,000
Per Share:			
Cash Generated from Operations	\$.85	\$.81	\$.75
Net Profit (Loss)	.21	.18	.15
Net Assets before Long Term Debt	14.76	13.80	12.80
Shareholders' Equity	10.70	10.49	9.80
Total Net Sales:			
Crude Oil	\$ 17,475	\$ 16,948	\$ 13,810
Natural Gas	9,357	7,989	7,100
Manufactured Products	14,722	8,570	7,100
Other	884	—	-
Total	\$ 42,438	\$ 33,507	\$ 27,910
Working Capital	\$ 3,714	\$ 3,390	\$ 3,000
Net Assets before Long Term Debt	\$307,375	\$286,912	\$222,000
Number of Shares Issued (000's)	20,831	20,802	17,000
Number of Shareholders	39,200	33,709	30,000

OPERATIONS

Daily Production:			
Oil and Liquids (Bbls.)	21,675	20,636	16,000
Natural Gas (MCF)	175,000	159,000	166,000
Net Oil and Gas Acreage (000's):			
Total	5,384	4,941	3,000
Proven	232	213	-
Net Productive Wells:			
Oil	580	585	-
Gas	258	250	-
Number of Employees	606	520	-

Note: In some instances figures for earlier years have been changed from those previously published to reflect subsequent changes.

ND STATISTICAL SUMMARY

(except per share figures, in thousands)

	10 Months Ended Dec. 31 1961	Years Ended February 28th or 29th					
		1961	1960	1959	1958	1957	1956
143	\$ 8,544	\$ 7,229	\$ 3,792	\$ 2,360	\$ (210)	\$ 185	\$ 866
108	7,527	9,722	7,366	6,559	1,385	655	486
035	\$ 1,017	\$ (2,493)	\$ (3,574)	\$ (4,199)	\$ (1,595)	\$ (470)	\$ 380
—	—	—	—	—	—	—	—
035	\$ 1,017	\$ (2,493)	\$ (3,574)	\$ (4,199)	\$ (1,595)	\$ (470)	\$ 380
80	\$.57	\$.49	\$.46	\$.30	\$ (.03)	\$.04	\$.19
17	.07	(.17)	(.44)	(.54)	(.25)	(.10)	.08
2.55	12.33	12.66	13.63	14.50	11.85	6.27	3.02
0.05	9.12	9.03	7.50	7.79	7.59	2.77	2.64
183	\$ 9,616	\$ 9,844	\$ 8,020	\$ 6,599	\$ 1,875	\$ 1,195	\$ 1,211
506	4,568	4,050	1,755	1,824	509	28	17
207	6,019	4,693	1,179	1,071	9	—	—
—	—	—	—	—	—	—	—
896	\$ 20,203	\$ 18,587	\$ 10,954	\$ 9,494	\$ 2,393	\$ 1,223	\$ 1,228
323	\$ 1,646	\$ 1,366	\$ 1,883	\$ 5,937	\$ (16,800)	\$ 3,350	\$ (3,245)
803	\$183,718	\$187,077	\$111,130	\$113,320	\$ 74,683	\$28,560	\$13,450
759	14,906	14,776	8,151	7,815	6,303	4,551	4,458
919	30,259	30,973	31,589	30,031	22,061	14,940	14,900
730	14,585	12,294	9,661	7,548	1,983	1,316	1,340
000	139,000	117,000	69,000	75,800	21,600	1,110	741
999	4,606	5,155	3,428	3,717	3,603	2,874	3,459
179	158	155	89	74	28	3	1
400	379	362	268	241	167	19	20
202	166	147	61	50	23	6	—
370	400	372	388	472	583	398	161

anges in accounting policies.

STATEMENT OF CONSOLIDATED

December 31

(Canadian dollars)

NET ASSETS

	1964	1963
CURRENT ASSETS		
Cash	\$ 731,523	\$ 683,108
Short term and demand deposits	1,800,000	2,199,152
Marketable securities at cost (quoted market value 1964 — \$589,300; 1963 — \$667,300)	171,591	176,591
Accounts receivable	14,842,329	10,530,051
Inventories valued at the lower of average cost or market Crude oil, refined products and merchandise	2,690,141	1,717,717
Material and supplies	1,714,273	1,158,781
	<u>21,949,857</u>	<u>16,465,400</u>
Deduct CURRENT LIABILITIES		
Accounts payable and accrued liabilities	9,885,210	6,962,920
Current maturities of bank loans and other long term debt (Note 5)	8,350,239	6,112,707
	<u>18,235,449</u>	<u>13,075,627</u>
WORKING CAPITAL	<u>3,714,408</u>	<u>3,389,773</u>
INVESTMENTS		
Westcoast Transmission Company Limited shares at cost (quoted market value 1964 — \$26,251,983; 1963 — \$27,032,288)	11,735,648	11,385,573
Other investments at cost (less allowance 1964 — \$562,657; 1963 — \$491,429)	2,047,499	2,147,229
	<u>13,783,147</u>	<u>13,532,802</u>
carried forward	<u>\$17,497,555</u>	<u>\$16,922,575</u>

ATED FINANCIAL POSITION

64 and 1963

ollars)

	1964	1963
brought forward	\$ 17,497,555	\$ 16,922,575
FIXED ASSETS (Note 3)		
Property, plant and equipment at cost	368,095,399	339,896,535
Less depletion and depreciation	71,354,114	56,635,419
	296,741,285	283,261,116
OTHER ASSETS (Note 4)	7,954,899	1,688,259
TOTAL ASSETS LESS CURRENT LIABILITIES	322,193,739	301,871,950
Deduct LONG TERM DEBT (Note 5)	84,446,927	68,776,469
	237,746,812	233,095,481
Deduct MINORITY INTEREST (principally preferred shares in subsidiary) (Note 5)	14,818,628	14,960,202
NET ASSETS	\$222,928,184	\$218,135,279
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)		
Authorized — 30,000,000 shares of a par value of \$1.00 each		
Issued — 20,831,323 shares (1963 — 20,801,623 shares)	\$ 20,831,323	\$ 20,801,623
PAID-IN SURPLUS	198,207,572	197,864,755
EARNED SURPLUS (DEFICIT)	3,889,289	(531,099)
SHAREHOLDERS' EQUITY	\$222,928,184	\$218,135,279

ON BEHALF OF THE BOARD

Kelly Gibson Director
Anthony... Director

(See accompanying notes)

PACIFIC PETROLEUMS LTD.

STATEMENT OF CONSOLIDATED EARNED SURPLUS

Years ended December 31, 1964 and 1963
(Canadian Dollars)

	1964	1963
Balance at beginning of year (deficit)	\$ (531,099)	\$ (4,215,518)
Net profit for year	4,420,388	3,684,419
Balance at end of year (deficit)	\$ 3,889,289	\$ (531,099)

STATEMENT OF CONSOLIDATED PAID-IN SURPLUS

Years ended December 31, 1964 and 1963
(Canadian Dollars)

	1964	1963
Balance at beginning of year	\$197,864,755	\$165,011,903
Premium on shares issued less share issue expenses	342,817	32,852,852
Balance at end of year	\$198,207,572	\$197,864,755

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders, Pacific Petroleum Ltd.

We have examined the statement of consolidated financial position of Pacific Petroleum Ltd. and subsidiary companies as at December 31, 1964 and the statements of consolidated operations, earned surplus and paid-in surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the statements mentioned above are properly drawn up so as to exhibit a true and correct view of the state of affairs of Pacific Petroleum Ltd. and subsidiary companies as at December 31, 1964 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting practice referred to in Note 2, which change we approve.

Calgary, Canada
February 22, 1965.

CLARKSON, GORDON & CO.
Chartered Accountants.

PACIFIC PETROLEUMS LTD.

Notes to Financial Statements

1. PRINCIPLES OF CONSOLIDATION

Included in the consolidated statements are the accounts of Pacific Petroleum Ltd. and all its subsidiaries. The excess of the consideration paid for the shares of purchased subsidiaries over the net book value of the related assets at dates of acquisition is included in property, plant and equipment in the accompanying statement of consolidated financial position.

The accounts of foreign subsidiaries have been converted to Canadian dollars on the following basis: current assets and current liabilities at the rates of exchange in effect at the year end, and fixed assets, expenses and revenue at the appropriate month end rates of exchange.

2. CHANGE IN ACCOUNTING PRACTICE

Prior to 1964 the companies followed a practice of capitalizing only those costs which resulted in the discovery and development of oil and gas reserves and depleting such costs on the unit-of-production method based on estimated reserves, whereas non-productive drilling, exploration and property costs were charged to operations at the time the projects were abandoned.

Commencing January 1, 1964 the companies adopted a new practice whereby all costs related to the exploration for and development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit-of-production method based on total estimated reserves.

Had this change in accounting practice been in effect during 1963 the net profit for that year would have been substantially the same as that actually reported.

3. FIXED ASSETS

The companies' investment in property, plant and equipment is summarized below:

	1964	1963
Oil and gas	\$299,063,476	\$286,767,396
Manufacturing	50,928,190	46,405,549
Marketing	11,460,000	1,090,702
Other	6,643,733	5,632,888
	368,095,399	339,896,535
Less depletion and depreciation	71,354,114	56,635,419
	\$296,741,285	\$283,261,116

4. OTHER ASSETS

Details of other assets are as follows:

	1964	1963
Amounts prepaid under gas supply contract	\$ 4,406,101	\$ —
Exploration and development in progress	1,777,339	688,434
Deferred accounts receivable, refundable deposits, etc.	1,771,459	999,825
	\$ 7,954,899	\$ 1,688,259

5. LONG TERM DEBT

Details of the companies' long term debt are as follows:

	Maturity Date	1964	1963
First Mortgage and Collateral Trust Sinking Fund Bonds, subject to annual sinking fund payments			
5½ % Series A Bonds	1967	\$ 1,029,000	\$ 1,034,000
5¼ % Series B Bonds (1964 — \$4,601,000 U.S.; 1963 — \$4,670,000 U.S.)	1967	4,496,335	4,563,599
5¼ % Bank Loans repayable semi-annually commencing in 1965 (1964 — \$6,000,000 U.S.; 1963 — \$4,200,000 U.S.)	1969	6,467,633	4,525,883
5¾ % Bank Loan repayable monthly (secured by producing properties)	1969	6,034,000	3,632,000
5¾ % Bank Loan of Bailey Selburn Oil & Gas Ltd. repayable monthly (secured by producing properties)	1973	9,637,100	1,747,300
Fifteen Year 5½ % Sinking Fund Debentures redeemable and subject to annual sinking fund payments (1964 — \$23,400,000 U.S.; 1963 — \$26,000,000 U.S.)	1973	22,955,766	25,493,812
6% Promissory Notes payable annually	1974	2,725,000	—
Twenty Year 5% Subordinate Debentures convertible into shares of capital stock of the Company to January 1, 1967, redeemable and subject to sinking fund commencing July 1, 1967 (\$11,055,000 U.S.)	1977	10,604,583	10,604,583
5½ % Secured Notes subject to annual sinking fund payments commencing in 1970 (1964 — \$26,000,000 U.S.; 1963 — \$22,000,000 U.S.)	1978	28,006,015	23,687,969
Sundry mortgages, notes, etc.	Various to 1984	3,370,795	1,187,181
carried forward		\$ 95,326,227	\$ 76,476,327

PACIFIC PETROLEUMS LTD.

brought forward	\$95,326,227	\$76,476,327
Deduct:		
Cash and investments held for sinking funds	2,529,061	1,587,151
Current maturities of bank loans and other long term debt included in current liabilities (see below)	8,350,239	6,112,707
	10,879,300	7,699,858
	<u>\$84,446,927</u>	<u>\$68,776,469</u>

Long term obligations which are payable in United States funds are recorded in the accounts in Canadian dollars based on the exchange rate in effect at the date of receipt of such funds. The current portion of such obligations at December 31, 1964 has been converted to Canadian dollars based on the exchange rate in effect at that date.

Subsequent to December 31, 1964 the Company has been negotiating the sale of \$65,000,000 U.S. 20 Year 5¼ % Notes, payable \$3,900,000 U.S. annually commencing in 1970. The transaction is to be finalized based upon the lenders being exempt from the interest equalization tax of the United States in which event, from the total proceeds, the outstanding preferred shares of Bailey Selburn Oil & Gas Ltd., a subsidiary, will be redeemed and the outstanding Fifteen Year 5½ % Sinking Fund Debentures, the 6% Promissory Notes and the 5¼ % Bank Loans of the Company and Bailey Selburn will be discharged. The effect of the foregoing would be that long term debt instalments amounting to \$6,654,701, included in current liabilities at December 31, 1964, would be deferred until 1970 and subsequent years.

6. SHARE CAPITAL

During the year the Company issued 29,700 shares for a consideration of \$372,517 in acquisition of shares of subsidiaries and to employees under a share purchase plan. Of the total consideration \$29,700 was credited to share capital account and the balance to paid-in surplus.

At January 1, 1964 options to purchase 59,100 shares of the Company's capital stock were outstanding to officers and employees. During the year options for 22,000 shares were granted, options for 8,000 shares expired or were cancelled and no options were exercised. At December 31, 1964 options were outstanding to officers and employees to purchase 73,100 shares at prices ranging from \$9.85 to \$15.25 per share exercisable from time to time to May 1, 1973.

In addition, shares of the Company's capital stock were reserved at December 31, 1964 as follows:

	<u>Shares</u>
For conversion of Twenty Year 5% Subordinate Debentures at a conversion rate of \$17.94 U.S. per share	581,905
For exercise of share purchase warrants — Relating to the 5½ % and 5¼ % First Mortgage and Collateral Trust Sinking Fund Bonds at \$38 per share	120,000
Relating to the Fifteen Year 5½ % Sinking Fund Debentures at \$20 per unit of 1.1 shares	660,000
For issuance to officers and employees under share purchase plans	258,628
For acquisition of Class "A" shares of Bailey Selburn Oil & Gas Ltd., a 97% owned subsidiary	120,725
	<u>1,741,258</u>

7. DIVIDEND RESTRICTIONS

The trust deeds securing certain of the Company's long term debt contain restrictions as to the declaration and payment of cash dividends, the most restrictive of which limits the payment of such dividends on the share capital of the Company to an amount not exceeding consolidated net income accumulated subsequent to December 31, 1956. Since that date, accumulated net income has amounted to approximately \$700,000.

8. COMMITMENTS AND CONTINGENCIES

An action has been commenced against the Company for certain alleged benefits under farmout agreements and for damages for breach of contract in the amount of \$5,000,000. The Company has denied any liability and, in the opinion of Counsel, there is nothing to justify or support the substantial monetary claim or other claims of substance put forward by the plaintiff.

Rental obligations for bulk and service stations under long term leases at December 31, 1964 amount to approximately \$850,000 per annum against which rental revenues of approximately \$300,000 are expected in 1965.

9. INCOME TAXES

It is the practice of the companies to capitalize all drilling, exploration and property acquisition costs. Under Canadian income tax law such costs are deductible from income in the year incurred or, if costs exceed income for the year, the excess may be carried forward to subsequent years. As a result, no provision for income taxes was required for the year ended December 31, 1964 and at that date a substantial excess of such costs was available to be carried forward and applied against future taxable income.

PACIFIC PETROLEUMS LTD.

Incorporated under the Laws of the Province of British Columbia

CORPORATE INFORMATION

OFFICES

Executive Office:

320 - 9th Avenue S.W.,
P.O. Box 6666
Calgary, Alberta

Registered Office:

406 Mercantile Bank Building
540 Burrard Street
Vancouver, B.C.

PRINCIPAL SUBSIDIARIES

(Wholly or substantially owned)

Asher American, Inc. (U.S.A.)	Venezuelan Canadian Oils, C.A. (Venezuela)
Bailey Selburn Oil & Gas Ltd.	Venezuelan Pacific Petroleum, C.A. (Venezuela)
Pacific Petroleum Inc. (U.S.A.)	Western Natural Gas Company Inc.
	Petroleum Transmission Company

REGISTRAR AND TRANSFER AGENTS

SECURITIES

First Mortgage and
Collateral Trust Sinking
Fund Bonds*

Twenty Year 5%
Subordinate Debentures

Fifteen Year 5½%
Sinking Fund Debentures**

Shares

REGISTRARS

MONTREAL TRUST COMPANY
Toronto and Calgary

MORGAN GUARANTY TRUST
COMPANY OF NEW YORK
(Also Paying Agents and Conversion
Agents)
New York

FIRST NATIONAL CITY BANK
New York

MONTREAL TRUST COMPANY
Vancouver, Calgary, Toronto and
Montreal

MANUFACTURERS HANOVER TRUST
COMPANY
New York

SECURITY FIRST NATIONAL BANK
Los Angeles

NATIONAL TRUST COMPANY, LIMITED
Vancouver, Calgary, Toronto and
Montreal

TRANSFER AGENTS

MONTREAL TRUST COMPANY
Toronto and Calgary

EASTERN TRUST COMPANY
Vancouver and Toronto
(Also Conversion Agents)

FIRST NATIONAL CITY BANK
New York

MONTREAL TRUST COMPANY
Vancouver, Calgary, Toronto and
Montreal

CHASE MANHATTAN BANK
New York

BANK OF AMERICA NATIONAL
TRUST AND SAVINGS
ASSOCIATION
Los Angeles

MONTREAL TRUST COMPANY
Vancouver, Calgary, Toronto and
Montreal

**Paying Agent for the 5½% Series "A" Bonds and interest coupons is any branch in Canada of The Royal Bank of Canada.*

Paying Agent for the 5¼% Series "B" Bonds and interest coupons is Morgan Guaranty Trust Company of New York.

***Paying Agents for the Fifteen Year 5½% Debentures and interest coupons are First Na-*

tional City Bank, New York, and The Royal Bank of Canada, Vancouver, Calgary, Toronto and Montreal.

Warrant Agent for the Share Purchase Warrants issued with the Fifteen Year 5½% Debentures is First National City Bank, New York. Canadian Warrant Offices are maintained by Montreal Trust Company, Vancouver, Calgary, Toronto and Montreal.

Shares listed on New York, Toronto, Montreal, Vancouver, Calgary and
Pacific Coast Stock Exchanges

AUDITORS

Clarkson, Gordon & Co., Chartered Accountants.

